RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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Nov. 19, DJIA 948.80; PTI 720; A-D Ratio -22.66
Nov. 26, DJIA 956.62; PTI 741; A-D Ratio -21.82

THE PICTURE: Again, I want to emphasize the bullish implications of the *developing bond stituation*. On November 18 the New York State Supreme Court announced that the "moratorium" on repayments of over $1 billion in City notes was "unconstitutional." In doing so, the Court was stating emphatically that the bond indenture (the promise to pay) was indeed ironclad. It was saying that when a bond issuer (a borrower) talks about "full faith and credit," brother, he better mean it whether that borrower be Joe the Junkman, General Motors or the City of New York.

The effect of this landmark decision was electric, coming as it did on top of a bond market that was already in the throes of a primary bull advance. Bond prices soared, and of course what's good for bonds is also good for stocks. Rising bond prices mean declining bond yields, and declining bond yields mean that on a comparison basis, common stock yields (and common stocks) are simply *worth more*.

As if this was not enough, the Carter-Burns situation is not without its bullish aspect. After meeting with Mr. Burns, Mr. Carter announced that he hopes to be able to work harmoniously with the head of the Federal Reserve Board. Mr. Burns in turn stated that "I would guess that I can work well with Mr. Carter." But Wall Street is never impressed with mere words. On Friday, November 19 the Fed announced a cut in the discount rate from 5.5% to 5.25%. That was ***action***. In my opinion, Wall Street took that action as a sign of cooperation on the part of the Fed towards Carter. Since the quarter point drop in the discount rate was minor, I personally would expect another quarter point drop in the near future. The bond market and the stock market—they liked the whole picture. Confidence in bonds, Carter, Burns, and the Fed is rising. So are bond prices.

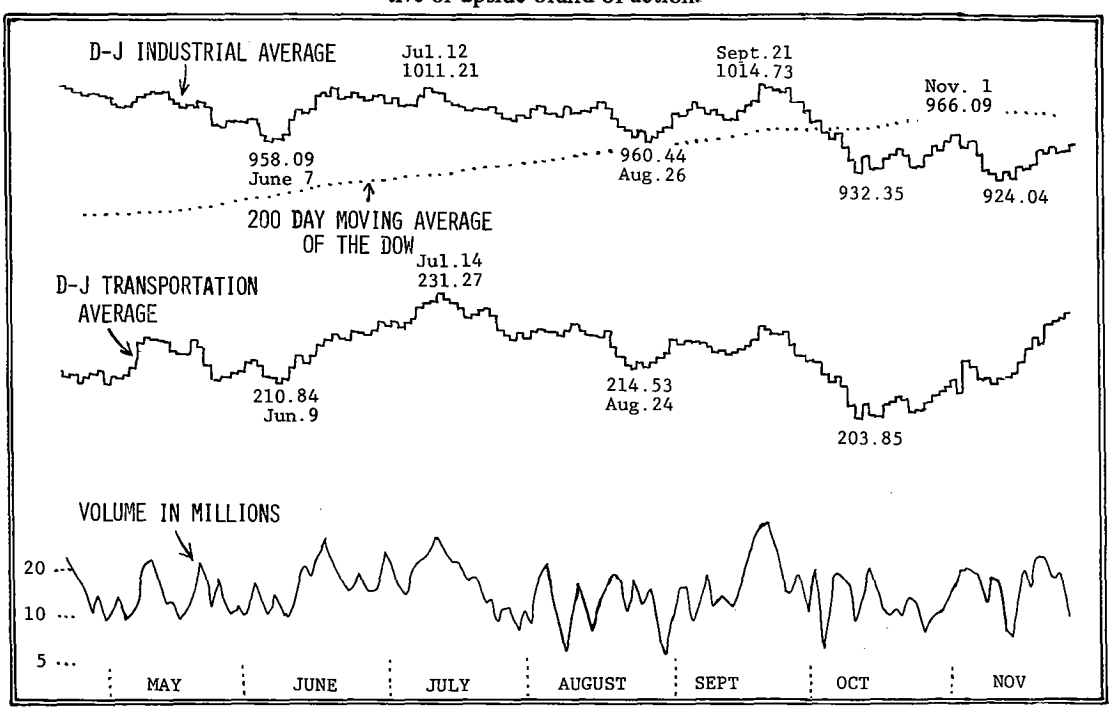
TIMING OBSESSION: I want to make an observation and offer an opinion before going into the stock picture. *Timing*, since 1973, has offered dramatic and profitable results. For instance, (blushingly) I will state that through study or luck or both, I did call the 1973 top prior to the horrendous 1973-74 crash, and I did call the turn to the new primary bull market in late-1974. A lot of money was made on those calls, and my subscription lists have pushed to new highs. Now obviously, a few other analysts and money managers did as well, both in print and in their portfolio management performance. This produced a good deal of favorable publicity. Wall Street likes success, but it simply adores a new fad or concept. So what's this year's fad—it's *timing*!

Timing is a good thing, but like any other good thing, you can overdo it. And if anybody is capable of running a good thing into the ground, it's Wall Street. Consequently, I've been emphasizing, underlining, repeating, that the overriding fact is simply that "we are in a primary bull market, both in stocks and in bonds." I've been doing this because I've been bothered by the gathering craze for timing, and because I (instinctively) try to avoid the Wall Street fad of the moment.

I don't think I've ever seen such a torrent of timing opinions as has arrived in my mails over the past few months. Almost everyone is now a "timing expert," and the reports all talk about the secondary trend, the daily trend, the weekly trend, or what have you. Calling every blip in the trend is now an obsession, and I doubt that it's going to do anyone any good.

I have felt that the best position is one of "sitting tight" with good holdings of stocks and bonds (the percentages and mixes were discussed in previous Letters). I still believe that (1) we're in a primary bull market, (2) holding our position in stocks and bonds should prove profitable, (3) at the October 12 low, the Averages discounted the worst of Jimmy Carter, the business slowdown, the monetary situation, Europe, OPEC, New York City, the works.

STRENGTH: Recent Letters have been pointing to the inherent strength of this market in terms of *downside non-confirmations*, or in terms of *resistance* to the downside on the part of Transports and many other indicators. Since the last mailing, however, we've seen some of the other side of the coin—the positive or upside brand of action.



On November 16 the D-J 20 Bond Average jumped to 89.90, a new bull market high and its highest level in 16 years. The next day, on November 17, the D-J Utility Average rallied to 99.05, a new bull market high and its highest level in three years. The outstanding and *continuing* strength in these two money-oriented Averages is not to be taken lightly. In Letter 678, page 2, I presented a study showing that a rising trend in *both* the D-J Bond and Utility Averages constitutes an extremely bullish technical force on the entire stock market. In fact, I know of no instances in which the general market declined against rising trends in both Bonds and Utilities.

I have been asked for a *rationale* for the Bond-Utility syndrome. I believe it is this: the bond market is massive, far larger than the stock markets. The bond market might be termed the "life-blood of the business world." Bonds are sensitive to dollar strength or weakness, to prevailing domestic and world interest rates, to the strength or weakness of the credit situation, to impending inflation or deflation. Utilities are, by the same token, sensitive to the power needs of both consumers and industry, to money rates, to the mood of the various regulatory agencies and therefore to the mood of Washington; they are subject to the trend of business and to the capital needs of the Utility industry itself (which is one of the nation's largest single industries).

There are those who may attempt to minimize the new high in both Utilities and Bonds (November 16 and 17), but I am not one of them. To my mind, the performance of these two money-sensitive sectors provides a most constructive and bullish background for equities. It reflects gathering confidence on the part of large interests and conservative investment funds. That kind of money tends to be right over any reasonable length of time.

MARKET: Let's turn to the page 1 chart of the Averages, and let's also go over a bit of Dow Theory. The last ***confirmed*** highs for the Averages were recorded on July 12 (Industrials 1011.21, Transports 231.27). Next, a three-month secondary correction carried the two Averages down to the October 12 lows of 932.35, for Industrials, 203.85 for Transports. At those lows I stated that I thought the Averages had ***discounted*** the worst (or the worst worries) that lay ahead.

A rally then carried to November 1, followed by a renewed decline and "testing" of the October 12 lows. The decline proved most instructive to market students. By November 10 the Industrials had dropped to 924.04, 8 points under their October 12 low. ***But Transports refused by a wide margin to confirm.***

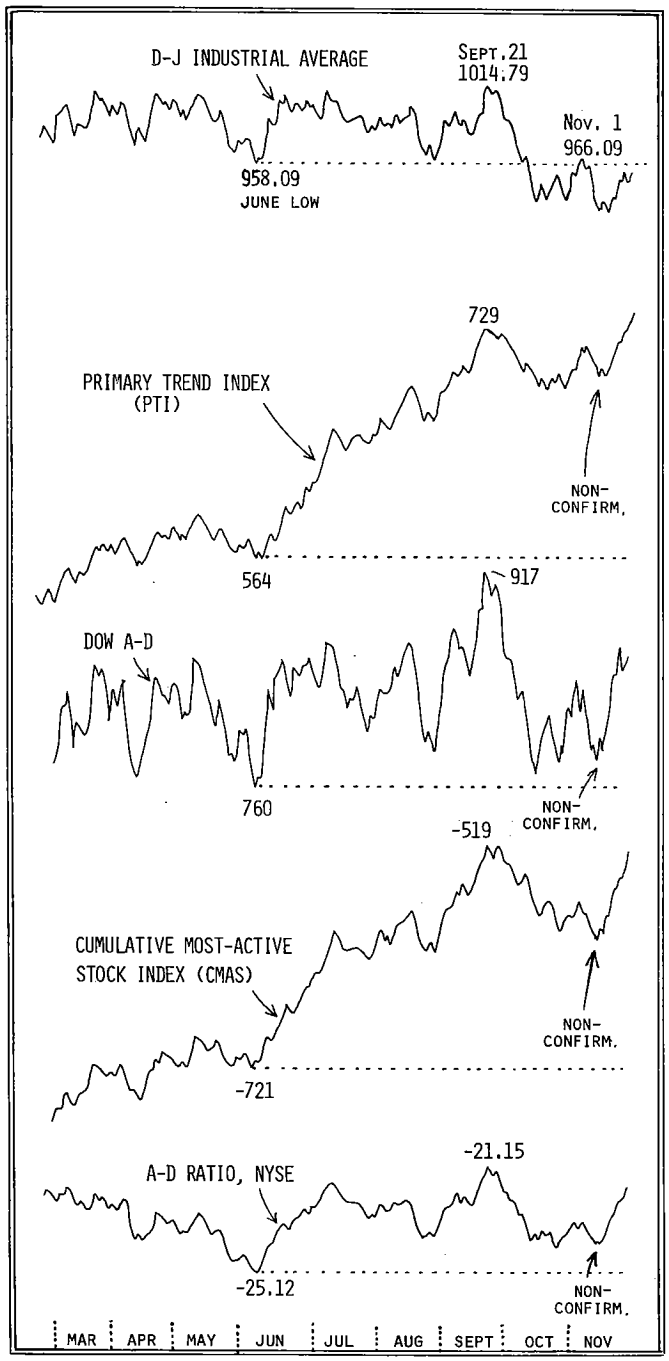
This striking Transport non-confirmation set off another rally, a rally which (on November 22) saw Transports better their preceding September 22 peak of 222.60. Here again, Industrials failed to confirm on the upside (as you can see on page 1 chart), In fact, Industrials could not even better their November 1 peak of 966.09.

Thus, we have a picture of continuing *uncertainty* on the part of the Averages, uncertainty in that the Transports want to go higher (along with the Bonds and Utilities) while Industrials prefer to "sit on their hands." It's obvious that something is still bothering Wall Street, and the resolution of that "something" may take time.

As stated in the last Letter, it is always good (and correct) policy during a primary bull market to give the benefit of the doubt ***to the upside, to the bull side.*** Almost six weeks have elapsed since the October 12 lows, and so far we have ***not*** had a ***joint*** penetration of those lows. The ***longer*** the elapsed time without a joint penetration, the better the odds are that this market is going to take the upward path in a convincing way.

My own feeling is that we may get more backing and filling, the Industrials could even test their November lows again, but the Transports simply *do not mean to break down*. In the tug-of-war between Industrials and Transports, I would say that the odds heavily favor the Transports ultimately having their way.

BREADTH INDICES: Following up my comments in the last Letter, I again include a daily chart of the Dow Industrials along with four indicators of market breadth. The *big story* this week is that on November 24 the Primary Trend Index (PTI) recorded a ***brand new bull market high of 735.*** Since this index (which is proprietary) is an amalgam of eight critical market averages and indices, it tends to measure the build-up (or decrease) in overall market technical strength. The new PTI high of November 24 is



telling me that the pressure is definitely on the upside in this market. This is the exact reverse of the kind of action we experienced during the 1973-74 bear phase when the PTI made new lows month after month (even when the Dow was tending to hold).

My feeling is that the new high in the PTI is creating a "technical vacuum" which will, in time, draw the Dow up to, and then above the 1,000 area. The Dow is currently acting like the reluctant maiden who doesn't want to turn back, yet is afraid of following her playmates to the top of the hill.

Referring to the four breadth indices, note that in every case the recent action has been the same. When the Dow broke below its 958.09 June low, the four indices refused to confirm on the downside. And during the latter part of November (as the Dow budged upward) the four indices climbed persistently higher.

Note also that the four indices have all bettered their November 1 peaks. They now have only their previous (September) bull market highs to hurdle. The PTI, as noted, has already rallied above its November peak and pushed into new high territory.

The November 1 peak for the Dow was 966.09 (this point is labeled on the chart). If and when the Dow betters that point (and I believe it will), the market would probably take such a technical achievement as the first bullish crack in the Dow's "wall of resistance." Since the Dow has been the only technical factor holding this market back, I would guess that a ***bettering of 966.09*** could trigger a primary upswing which would ultimately prove to be "surprising," dramatic and very profitable.

WHEN? I exchange complimentary subscriptions with at least 25 other investment advisories (I've never really counted them all). Most recently, I've been interested (I should say fascinated) by the vehement and continuing bearishness of a number of these reports. The facts they present are well known and for the most part irrefutable. But the scenerios that these services offer are positively hair-raising.

For instance, most of the bearish advisories point to the massive loans now outstanding on the part of the less-developed nations (the loans are estimated to be $100 to $150 billion). We are told that not only will these loans never be repaid, but that ultimately the mass-defaults on these loans will bring down the Free World's entire banking system. We are further warned that the economies of the world are currently moving from slump to depression (the depression is scheduled for 1977-78), and shortly the NYSE "should see this" and duly collapse.

My answer to this frightening "glimpse into the future" is that these gentlemen may be positively brilliant, they may read more newspapers and magazines than you or I, they may understand concepts that we struggling students find incomprehensible—but these gentlemen are nevertheless indulging in an exercise in *arrogance.* Let me put it another way: the super-bears could be absolutely correct about the series of disasters which they see ahead, but the question I want an answer to, the question I always have to struggle with, is WHEN.

Let's pretend that you are living in the 1920's, and you foresee (with remarkable prescience) that the whole kit and kaboodle is going to end up in history's greatest crash and depression. And suppose that you are writing a market advisory in 1923 or 1924. By the time 1929 finally arrives, you will either be totally worn out or you will have lost your credibility with readers.

There's a certain principle or concept that the super-bears are ignoring (or let's say they don't want to know about it). This concept holds that the ***stock market averages contain the sum total of what everyone knows about anything having to do with business or finance.*** Therefore, when the Dow Theory says "it's a primary bull market" (as it did in January, 1975), and when the Averages advance strongly and then tend to hold their gains (as they have done since February, 1976), and when, in the face of all kinds and varieties of bad news, the Averages refuse to confirm on the downside (as they have done since October), then I find myself listening to the market, rather than the "experts."

It seems to me that the market is telling us another story, one that seems to have escaped all the super-bears. The market is saying, "Look, you guys may be right and the worst depression-collapse since the dawn of history may lie somewhere ahead. But we are ***now*** in a primary bull market, and it isn't finished yet—it hasn't done its stuff yet. The party's going to get a lot hotter up ahead than you ever thought possible. So either sit on the sidelines, join the party or hold your peace."

Perhaps the whole thing can be wrapped up by quoting a few paragraphs from William H. Hamilton, that great Dow Theorist and old-time Editor of the Wall Street Journal. Hamilton said, "The graveyards of Wall Street are filled with men who have been right *too soon*."

Again, when commenting on the fact that the Averages contain all available information, Hamilton chose farming as an example: "The farmers say, 'What does Wall Street know about farming?' Wall Street knows more than all the farmers put together ever knew, with all that the farmers have forgotten. It can, moreover, refresh its memory instantly at any moment. It employs the ablest of farmers, and its experts are better even than those of our admirable and little appreciated Department of Agriculture, whose publications Wall Street reads, even if the farmer neglects them."

Multiply Hamilton's comments about farming by a thousand, by defense and banking and freight-hauling and retailing and on and on and you'll have some idea of what's contained in the movement of the Averages. Which explains why I've spent the better part of my life studying those cold, emotionless little squiggles, and patterns on the charts.

ACCOUNTING DISCOUNTED? "All news is history," runs the old market adage. I have found out the hard way that any time I think I have "inside knowledge" about something the stock market doesn't know, I am wrong (in at least nine out of ten cases). I am wrong, and the market has already discounted the supposed nows. So I have learned to forget about trying to outguess the market on the basis of my hot, inside information.

At any rate, I don't know how many subscribers are aware of the new "replacement accounting" which will be in effect next year for major US corporations. In a highly informative piece, *Value Line* (5 E. 44 St., NYC 10017) has reviewed the meaning of the SEC's new ruling. That ruling states that non-financial corporations with inventory and gross property, plant and equipment exceeding $100 million must switch to replacement-cost accounting. This ruling will affect about 1000 of the largest corporations in America.

Value Line notes that according to the Dept. of Commerce, the 1976 June quarter showed about $81 billion of annualized corporate profit. Of that $81 billion, roughly $30 billion was a result of illusory inventory profits and under-depreciation of facilities. Thus, over one-third of all corporate profits in the nation are due to the old accounting procedure, a procedure which is not grounded in reality. The reality, of course, is that depreciation should be based on what it costs you now to replace plant and equipment, not what it cost you five or ten years ago.

Value Line thinks that many investors are going to be "shocked" when they read about their favorite corporation's profits next year, profits that will be based on the new replacement accounting. The problem is very serious, *Value Line* believes, and one of

the shockers is that "US industry—especially 'Smokestack America,'—is paying taxes on $15 billion of illusory profits because of understatement of depreciation."

But the situation is not without its *long-term* bullish side, states *Value Line*. First, it will become increasingly obvious that profits for American industry are now too thin. Under the new accounting, profits of US corporations will amount to 3% of GNP. *Value Line* predicts that by 1980 these profits will rise to 5% or 6% of GNP.

Next, it will be seen that tax *reform* of some kind will be necessary in order to increase corporate profits. This has bullish implications. Also bullish is the fact that under the new accounting cash flow will not be changed, since cash flow equals earnings plus depreciation, and higher depreciation will offset lower earnings.

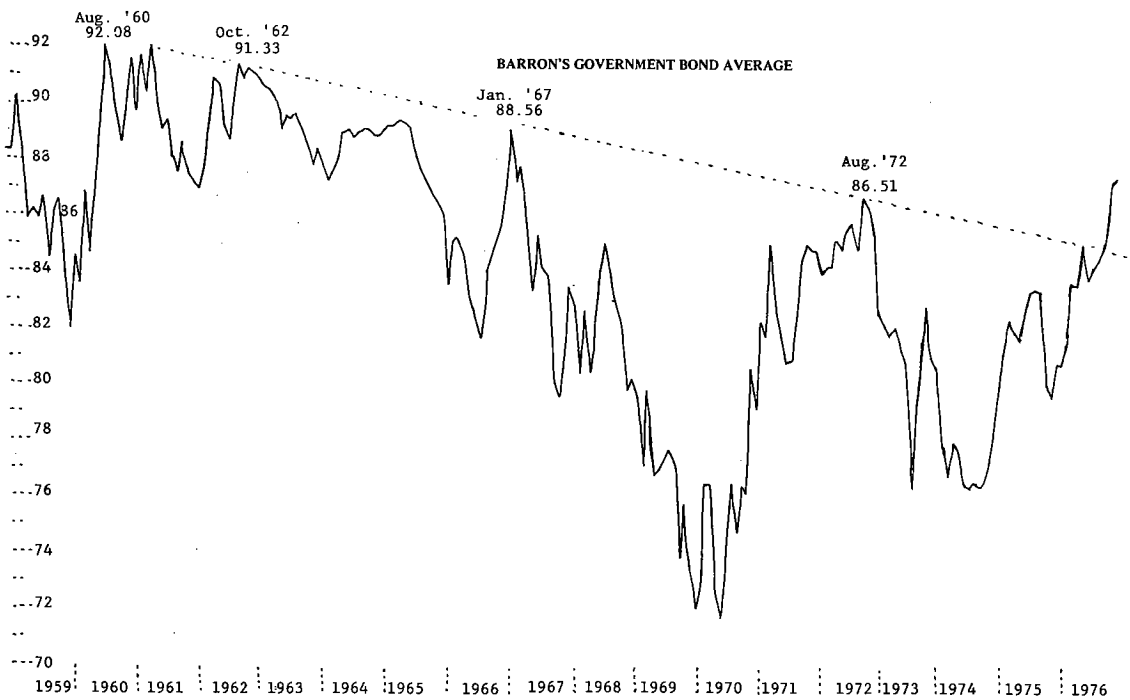
Value Line believes that in time the new accountancy rulings will prove bullish for stocks. It will strengthen the corporate case with "tax-hungry legislatures, slow-moving regulators, consumers and unions. The new rules should make it easier for managements to improve profitability." So says *Value Line*. I agree. I am always in favor of anything that has the effect of turning fantasy into reality. Current corporate profits, based on replacement costs of years gone by, are fantasy. The new SEC ruling will show investors corporate profit and loss statements as they are, not as they "would be" if you could replace today's equipment at 1965 or 1960 prices.

One more thing: at today's level, the Dow is probably selling at around 9 times next year's earnings. This low P/E suggests to me that the DJIA has already discounted next year's earnings based on replacement value accounting.

BONDS: This letter has a lot of "bond talk" in it, but I think that it's definitely important enough to highlight. The powerful bull market in bonds has been one of the "moving forces" behind the stock market. The last primary bull market in stocks that had the benefit of a bull market in bonds behind it was the 1942-46 affair. That bull market, by the way, saw one of the greatest advances in market breadth of any bull market in recorded history. Whether this bull market can muster anything like that upward sweep in breadth (in the mass of stocks, both listed and unlisted) remains to be seen.

I have been using the ***D-J 20 Bond Average*** as an indicator of the primary direction of the bond market. Since this is a new Average (D-J changed the 40 Bond Average to the 20 Bond Average in 1976), I have received some criticism and a good deal of skeptical comment on the part of readers for drawing conclusions on the basis of the new 20 Bond Average.

I have been keeping a monthly chart of ***Barron's Government Bond Average*** ever since the 1950's, and I am including a section of that chart going back 18 years to 1959.



As you can see, this Average has recorded four important declining tops since 1959, one in August 1960, one in October 1962, one in January 1967, and one in August 1972. I have drawn a trendline through these four tops.

In July, 1976, this Average broke above its 16-year (!) declining trendline, then pushed above the August, 1972 peak of 86.51. That action constituted a primary bull signal in my book, and it confirmed the very bullish action of the D-J 20 Bonds. I might add that the *Barron's Government Bond Average* has now risen 21% from its 1970 low. That's rather powerful action in the face of forecasts that the US is spending itself broke, that the dollar is doomed, and that inflation will send the nation to a 1977-78 grave.

To put it another way, the bond market is saying that the doom-and-gloom may prove to be the real story—but ***not in the foreseeable future.***

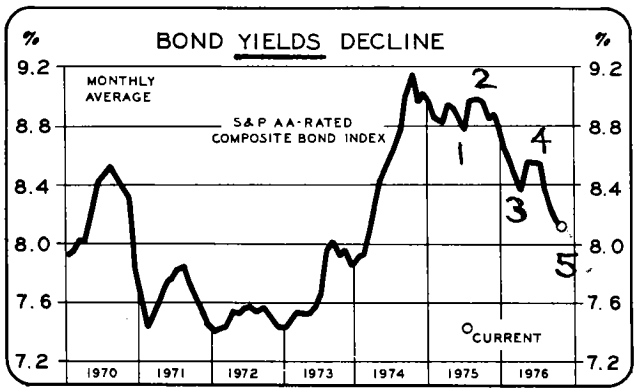
BOND COMMENTS: I've been "bending my subscribers' ears" about bonds for two years now, and many (if not most) subscribers have bond positions. We've been riding one of the biggest bond advances of modern history, and I personally feel that the rise is far from over.

I had recommended positions in Treasury bonds, which happen to be the safest and most liquid of all debt instruments. We moved into the Treasuries when most of the list was under par (under 100) and when yields of "over 8%" were the rule. All that has changed. The Treasury list has literally exploded over the past month. Many of the intermediate maturities (5-10 year notes) are now yielding under 6%. Therefore, I would prefer to move to the ***long*** end of the list for investment purposes at this time. In other words, I prefer the Treasuries in the 1990 to 2000 maturity spectrum. There, yields are still around 7.5%.

High yields can also be obtained from many of the closed-end bond funds. These are traded like common stocks on the Big Board. I am talking about Mutual of Omaha, Transamerica Income, American General Bond, Standard & Poor's Intercapital, Excelsior. Almost all of these yield 8% or better.

For those in high income brackets, the new no-load municipal bond *funds* are attractive, and they offer *diversification* and *liquidity*. All pay 5-6% (federal) tax free, and all are top outfits.

I list a few I like with their toll free numbers, so you can call them and get the details along with a prospectus: ***Scudder*** (800-225-5163), ***Fidelity*** (800-225-6190), ***Rowe Price*** (800-638-1527) ***Dreyfus*** (800-223-5525). Rowe Price also has an income (bond) fund which is no-load. It pays (taxable) about 8%.



BOND YIELDS & ELLIOTT: The little chart (above) of bond yields (courtesy of *Standard & Poor's Outlook*) is very interesting in Elliott Wave terms. It is interesting because the decline in bond yields (and the rise in bond prices) has come in the form of ***five*** sub-waves down (as marked on the chart).

Bear markets (in Elliott terms) do not occur in five-wave down-movements, ***they occur in three-wave declines.*** An Elliott bear market is characterized by a major wave down, an intervening upward correction, and a final major wave which breaks to new lows.

Now note this carefully: Since the decline in bond yields has now formed a five-wave declining pattern, we can assume that the yield decline pattern is ***not a completed bear market*** (it might have been if it were three waves down). But the five-wave decline indicates that what we have here is the ***first down-leg*** (divided into five sub-waves) of a major 1-2-3 bear market. In other words, when the current five-leg pattern is completed, we will have an upward correction (which will mean higher yields temporarily), and ***then a final leg down*** (which will indicate major new lows in yields).

The fact that the decline in interest rates has already assumed a 5-wave declining pattern is, by my analysis, very ***bullish long-term for bonds.*** It means that we are seeing only the *first part* of a major slide in bond yields. The first leg has already lasted for two years. The odds are that three years or more will elapse before the declining bond-yield structure is completed.

NOTE: In the above section when I am talking about a bear market (as per the chart), I am talking about a bear market in ***bond yields***. Since yields are an inverse function of bond prices, I am talking about a bear market in bond yields, but a ***bull market*** in ***bond prices.***

SAN FRANCISCO: We flew to SF a few weeks ago to see Bob Gross of *Professional Investor* and to see San Francisco again. We missed Bob (he was giving a huge party for his subscribers), but we did see SF. I guess we're spoiled, living down here in San Diego where the sun is always out and the prices are almost always low. We hit beautiful weather in SF, but I think I'll have to call SF the "rip-off capital of the West." Prices are ridiculously high, as high or higher than NYC. Even worse, SF hasn't got anything resembling a good newspaper. I couldn't find a New York Times in SF, and they're too snobbish to carry the LA Times (which happens to be the only good newspaper in the West).

Exasperation: the Fairmont Hotel charges $65 for a room in SF, whereas the same chain charges $45 for a comparable room in New Orleans. Breakfasts run $2.75 to $4 and more in SF against $1.75 to $2.00 in low-priced San Diego. We spent an afternoon down at the Wharf in SF (among thousands of other tourists), and it was most interesting. Dozens and dozens of hippy SF youth-artisans are offering their wares along the streets, and I always find that interesting (it's particularly interesting if you happen to like bronze and silver jewelry). At Fisherman's Wharf the seafood stands offer mouth-watering delicasies from shrimp to crab, from salmon to scallops. Naturally we couldn't resist the crab and oyster bars.

Next, a drive to Tiburon and Mill Valley, two little towns about 15 miles from SF proper. We called Jim Dines who has just moved from NYC to this area, but no Jim (James, where are you?). I'll have to admit that Dines knows what he's doing, because both Tiburon and Mill Valley are absolutely gorgeous spots. No one who visits No.Calif. ever should miss them. At Tiburon we sun ourselves at an open-air restaurant on the dock and watch the seagulls skim gracefully over the water.

We spend two nights in a row in SF's huge Chinatown. The first night we eat at Kan's, a good (but over-priced) Chinese restaurant recommended to us by the doorman at the Fairmont. The second night we use our heads and follow five Chinese couples into a Chinese restaurant which I doubt even has a name. But the food, it's supurb and totally irresistible (at least I can't resist—and I thank my guests for indulging my insatiable appetite for Chinese food). San Diego has a fairly large Chinese population but incredibly, no really outstanding Chinese restaurants at all. To all Chinese subscribers who are also gourmet cooks—open a restaurant in San Diego and you'll be riding around in a Porsche your first year. I can almost guarantee it!

WORDS: Words can become fashionable, and I hate fashionable words almost as much as I hate euphemisms. Stop me if I use any of these: *viable*, this blasted word is losing its viability, happily. *Community*, there's a community of everything these days, a legal community, a gay community, a black community, a world community, ugh! *Input*, this is a euphemism for information; how I dislike the word input. *System*, nothing is a machine or an object these days, it's a system. The ads don't talk about the lowly cigarette filter, they talk (gag) about a filtration system. It's enough to make you stop smoking (if you are still dumb enough to be smoking).

Orchestrate, ah, I sense this word getting popular. The stock market was orchestrated with all sorts of opin—I can't go on. Can we stop orchestrate before it starts? *Exceptional* to mean any person (usually a child) who has something wrong with it. C'mon, let's face the tragedy, if you have a retarded kid, he's retarded, not exceptional, reality, please. Then there's *universe*, the universe of stocks, the universe of underachievers, and so on. Do we have to put up with this one?

Bottom line, is an expression that's now being done to death—(I understand there's even a nightclub in NYC called "The Bottom Line," (how chic can one get!). Oh yes, you'll never hear me using the expression, *Conventional Wisdom*. It's very "in" now, but I think it's being used ad nauseum. Besides, true wisdom is never conventional, it's rare as hell.

I guess I could fill the page with various words and expressions that I wish had never been bastardized. I think it's the pseudo-snob appeal in these words and the avoidance of truth in them that make me detest them so. There, I got that off my chest.

GOLD: I have recommended holding 5% to 10% of one's assets in Krugerrands, Coronas or any other modern high-gold content coin. I believe gold saw it's low in August at 103.50, and I would guess that 150 would be the high for a while. But gold is real money, and it's real insurance against the unexpected and unknown. Frankly, at this point I like high-quality US postage stamps as well as gold, and I like top-grade diamonds as well as gold.

I still get letters asking why I don't recommend the S.African gold shares. These excerpts from a recent *Newsday* (page 6) provide the answer. S. Africa has 18 million blacks, 4 million whites. The S.African government will in no way entertain the idea of racial equality. They want to keep apartheid. I'm betting they can't do it. I'm betting that the ***new student generation*** of blacks is going to spell the beginning of the end for either apartheid or S. Africa as we know it today.

I've drawn a map of Africa. There isn't one in a thousand who

knows how big and how much is involved here. Inside the outline of Africa, I've placed (to actual scale) the US, Japan, India and all Europe. And there is a lot left over! Does that give you an inkling of what's at stake on the continent of Africa!

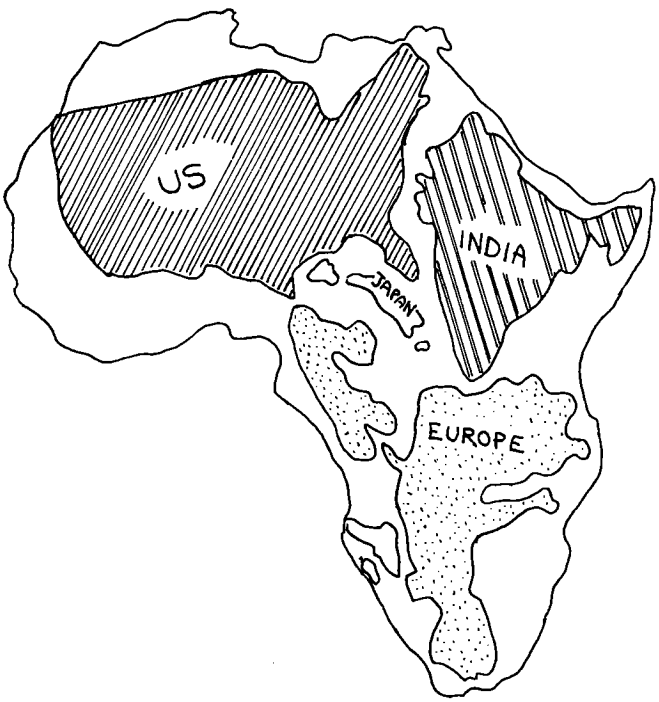
Newsday

SOWETO, South Africa—Tlhopheto Modise, 17, is hiding and running from the South African police. He is a high school student and leader of the activist group that organized student boycotts here and workers' strikes in nearby Johannesburg.

Most Soweto student leaders are in jail. Others, like Modise, are hotly pursued by police. The remainder have fled to Europe and other African states. Swaziland recently granted asylum to 92 Soweto student leaders.

A growing number of student leaders are maturing fast in the ways of protest. The best-known fugitive is Donald Tsietsi Mashinini, 19, who escaped to England recently after evading police here for weeks. Some have gone abroad to study politics, and even military tactics.

The stakes are huge, unbelievable. I don't know how it's all going to work out except that it's got to have something to do with God's laws and that it will have nothing to do with apartheid. All history tells me that, but if you want to "invest" in S. African mines from this point on, go to it. I'm just not advising it. The tide of events is now moving too fast.



LATE MARKET NOTES: Most of the market (with the exception of the Dow) has been pushing steadily up ever since the October 12 lows. We could get a bit of irregularity or consolidation here, but in a primary bull market you never know how persistent the strength is going to be. Following a strong advance, I always watch and note ***how well the market holds its gains***. If volume tends to dry up on the decline, if breadth tends to hold on the decline, if the Averages tend to diverge on the downside (i.e., they don't all sink together), then the picture continues bright.

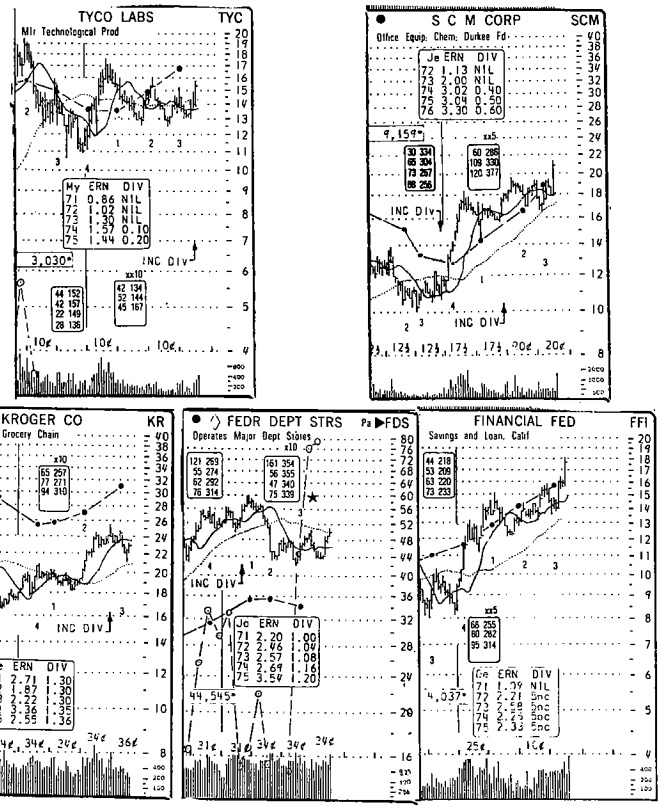
The immediate technical target for the market, as far as I am concerned, is the November 1 mark of *966.09* for the Dow. If that level is bettered with a bit of upside force, then I would think that we are in for a test of, and probably a major advance through, the September 1 high of 1014.79.

The 13-week moving average (MA) of the Dow, which now stands at 966, has finally sunk below the 50-week MA of the Dow (which is now 969). However, I am continuing to give the benefit of the doubt to the bull, and I wouldn't bow to the bears unless those October 12 lows are jointly penetrated on volume.

STOCKS: I assume that subscribers have been clinging to their stocks during all the recent nervousness, fear, irregularity and decline. I can't tell you how much equity to hold, but if you are "under-invested," this is an advantageous time to take on a few more commitments. If you sweat a little when you place your buy orders, that's a good sign that you're probably buying correctly.

Here are some suggestions: If I had to guess about two coming major areas of promise, I would guess (1) electronic communications, and (2) solar energy. ***Tyco Labs*** is a pioneer in the latter, and it's had a joint project going with Mobile. They loved TYC in 1968 at a price over 60, so I think it's rather interesting at its current level of under 20. It's relative strength (RS) is also looking good.

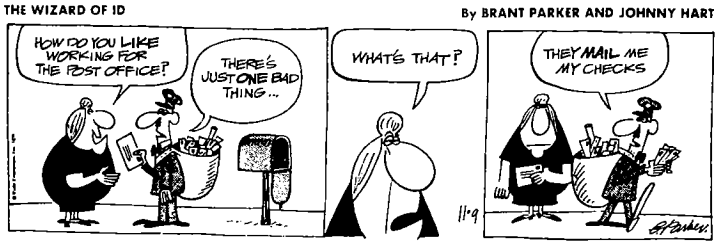
I've recommended ***SCM*** before, and I'm going to do it again. The company is doing well in the markets and on its fundamentals. SCM is selling at about 5.8 P/E, and it now pays a 60-cent dividend. I think it's a "coming company."



Kroger is the third largest supermarket chain, and the company is well managed and its earnings are turning up. A good investment, in my opinion. Another leader in its field is ***Federated Dept. Stores.*** FDS earnings have gone flat since early '76, but RS in the stock is turning up. FDS owns Bloomingdale's. Maybe that's all you have to know. I've recommended the S&L's and more particularly ***Financial Federation***, Value Line estimates FFI's earnings at 4.15 for next year, and if so the stock is still at about 4.2 times next year's earnings. I still like FFI and I like ***Imperial Corp.*** in this same group. (Charts courtesy of QUOTE, Box 213, Wichita, KS 67201).

GRRR: There are two things all Americans agree about. Taxes are ridiculously high, and the Post Office is maddening. If you can't change it, laugh at it, which is what I did when I saw the strip below.

THE WIZARD OF ID — By BRANT PARKER AND JOHNNY HART



NEXT MAILING: December 10th